STATE OF CONNECTICUT

INSURANCE DEPARTMENT

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In the Matter Of:	:	
	:	
Application of the National Council on Compensation Insurance for a Change in Advisory Pure Premiums and a Change in Assigned Risk Rates for Workers' Compensation Insurance	:	Docket No. PC 4-92
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ORDER

I, Susan F. Cogswell, Insurance Commissioner of the State of Connecticut, do hereby adopt the findings and recommendations of Thomas J. Taggart, Hearing Officer in the captioned matter, TO WIT:

A. The overall cost level changes for advisory loss costs filed by the National Council on Compensation Insurance ("NCCI") are approved as filed.
B. Approve the assigned risk rates with the exception of the 2.5% contingencies provision.
C. Approve the United States Harbor Workers' Coverage Percentage of 26% applicable only in connection with Basic Manual Rule 3-A-4 .
D. The proposed removal of the premium discount for employers in the assigned risk plan be denied.
E. The proposed Workers Compensation Commission industrial classification assessment fund rate of 1.7% and "F" industrial classification assessment fund rate of 7.0% for voluntary market and assigned risk market insurers, for policies effective on or after January 1, 2005, are approved.
F. For filings received prior to January 1, 2005, the thirty (30) day advance filing set forth in Conn. Gen. Stat. §38a-676(b) is waived pursuant to that section to allow for the adoption of the advisory pure premium change effective January 1, 2005.

This order is effective from the date of this order.

Dated at Hartford, Connecticut this 9th day of November 2004.

Susan F. Cogswell

Susan F. Cogswell
Insurance Commissioner

STATE OF CONNECTICUT

INSURANCE DEPARTMENT

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In the Matter Of: :

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Application of the National Council on Compensation Insurance for a Change in Advisory Pure Premiums and a Change in Assigned Risk Rates for Workers' Compensation Insurance : Docket No. PC 04-92

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MEMORANDUM OF FINDINGS
AND RECOMMENDATION

I. INTRODUCTION

The National Council on Compensation Insurance (NCCI) on September 22, 2004 submitted an Advisory Pure Premium and an Assigned Risk Rate filing for workers' compensation insurance pursuant to Conn. Gen. Stat. §38a-665(a). The Insurance Department held a public hearing on Thursday, October 21, 2004 to consider the filing. At the hearing NCCI announced that they would be filing an amendment to their September 22, 2004 filing for the Workers' Compensation Assigned Risk Market. The amendment was dated and received via e-mail on October 25, 2004. In accordance with the authority granted by Conn. Gen. Stat. §38a-16, it was in the public interest to hold a public hearing on this filing to aid in the Department's determination of compliance with standards for the making and use of rates contained in Conn. Gen. Stat. §38a-665 and to allow for public comment. Insurance Commissioner Susan F. Cogswell appointed the undersigned to serve as hearing officer in this matter.

NCCI's filing for voluntary market pure premium loss costs and assigned risk plan rates is proposed to be effective January 1, 2005. The filing propose revisions of the current and loss costs and assigned risk rates which were approved effective January 1, 2004. NCCI proposes an overall –0.3% change for pure premium loss costs and an overall +4.2% change in assigned risk rates. Changes to individual classification costs have been limited to 20% plus or minus the industry group change.

II. FINDINGS

After reviewing the exhibits entered into the record of this hearing and the presentations given at the hearing, utilizing the Insurance Department's experience, technical competence and specialized knowledge, the undersigned makes the following findings of fact:

1. The proposed change in Advisory Loss Costs reflects the following pure premium level changes:

Industry Group	Voluntary Market Pure Premium Loss Cost Change (%)
Manufacturing	-1.7
Contracting	-0.7
Office & Clerical	-0.2
Goods & Services	+2.0
Miscellaneous	-3.0
Overall Change	**-0.3%**

2. The proposed change in Assigned Risk Market Rates reflects the following rate level changes:

Industry Group	Assigned Risk Plan Rate Change (%)
Manufacturing	+2.7
Contracting	+3.8
Office & Clerical	+4.3
Goods & Services	+6.6
Miscellaneous	+1.4
Overall Change	**+4.2%**

3. The components of the Advisory Loss Costs and Assigned Risk Market Rates changes are comprised of the following elements:

Component	Pure Premium Voluntary Market Change	Assigned Risk Premium Level Change
Experience, Trend and Benefit	-0.1%	-0.1%
Loss Adjustment Expenses	-0.2%	--
Expense Constant change	--	--
Assigned Risk Expenses	--	-2.5%
Removal of Premium Discounts for Assigned Risks	--	+7.0%
Overall Change	**-0.3%**	**+4.2%**

4. The assessments due from employers for funding the cost of the Workers' Compensation Commission are 2.76% of losses . These assessments are passed through to employers by insurance carriers. For the Voluntary Market and the Assigned Risk Market, the assessment rate converted to a percentage of premium is 1.7% of standard premium. The Assessment rate for "F" classifications, which provides for coverage under the United States Longshore and Harbor Workers' Compensation Act and its extensions, is changing from 20.1% to 21.1% of losses, with a proposed assessment on assigned risk standard premium and voluntary market standard premium of 7.0%.

5. Assigned Risk Market Rate filing proposes a 2.5% provision for profit and contingencies.

6. The Assigned Risk Market filing proposes to remove premium discounts.

7. The filing proposes a new large loss methodology. The Connecticut large loss threshold is $7 million dollars. There were no claims in this years experience period in excess of $7 million dollars. NCCI compared the indicated change in voluntary loss costs using the proposed method with the prior method. The indications for both methods are identical at –0.3%. All other rate making methods were essentially the same as methods used for last year's filing to determine overall change levels and individual classification loss costs and rates. As with previous filings, changes to individual class loss costs are limited to 20% above and below the overall change in loss costs of the industry groups.

8. The proposed Permissible Loss Ratio (PLR) for the Assigned Risk Rate filing is 61.42%.

9. The filing is proposing a 13% increase in the United States Harbor Workers' Coverage Percentage.

III. DISCUSSION

A. Overall Loss Costs and Assigned Risk Rates

Conn. Gen. Stat. §38a-665 establishes the standards, methods and criteria for the making and use of commercial risk workers' compensation insurance rates in Connecticut. Conn. Gen. Stat. §38a-665 provides that no rates shall be excessive or inadequate, nor shall they be unfairly discriminatory. Conn. Gen. Stat. §38a-665(b) provides that consideration shall be given, to the extent possible; to past and prospective loss experience, reasonable margin for profit and contingencies, to past and prospective expenses both countrywide and those specially applicable to this state, to investment income earned or realized both from unearned premium and loss reserve funds, and other relevant factors, including judgment factors.

The overall cost levels are decreasing for both the advisory loss costs and the assigned risk rates. The cost levels for both filings are based on Connecticut loss experience for policy years 2001 and 2002. The NCCI adjusts past losses to current conditions using adjustment methods which make the magnitude of the change very sensitive to their assumptions. Critical assumptions include those for trend, loss development and experience period. The assumptions included in these filings, including the econometric forecast values, were reviewed for reasonableness.

Based on the foregoing, it is recommended that the overall cost level change for advisory loss costs be approved as filed.

B. Contingencies

NCCI is proposing a 2.5% provision for contingencies in the assigned risk plan. The filing states that the proposed 2.5% provision is driven by the recent declines in investment yields. A more favorable underwriting result is therefore needed to offset this decline and produce a reasonable rate of return.

Many small employers, especially those in hazardous classifications, have limited access to the competitive voluntary market. These employers have no alternative and must resort to the assigned risk plan in order to comply with their statutory obligations. Employers in the assigned risk market already have rates that are affected by the Assigned Risk Differential. Additionally employers with a debit experience modification factor are subject to the Assigned Risk Adjustment Program, which has an additional cost. The 2.5% provision for profit and contingencies increases rates for employers in the assigned risk market. Adding the 2.5% provision would be an undue burden for many employers.

It is recommended that 2.5% provision for profit & contingencies be denied.

C. Removal of Premium Discounts

NCCI is proposing the removal of premiums discounts in the assigned risk plan. NCCI stated the proposed removal of discounts program, together with Assigned Risk Adjustment Program and the 25% differential, should serve to:

- ensure that the assigned risk market will not be competitive with the voluntary market.

- provide incentive for assigned risk employers to seek voluntary market coverage thus lowering the assigned risk share back to historical levels.
- provide incentive to emphasize a safe workplace and loss control programs.
- prevent the emergence of assigned risk deficits that might influence carrier underwriting strategies.

Premium discounts are allowed on risks at $5,000 and above to recognize that the relative expense of issuing and servicing larger premium policies is less than for smaller premium policies. Employers with larger accounts in hazardous classifications, have limited access to the competitive voluntary market. These employers may have no alternative other than the assigned risk plan in order to comply with their statutory obligations. The premium discounts for these accounts can be as high as 10.5%. These employers are already subject to the 25% differential and may be subject to the Assigned Risk Adjustment Program. By eliminating the premium discounts employers with larger accounts would be subject to an additional burden.

It is recommended that the removal of premium discounts be denied.

D. Workers Compensation Commission Assessment Fund

The Workers' Compensation Commission establishes the amount needed to fund the Commission. The assessment to fund the Workers' Compensation Commission is 2.76% of losses. The assessment based on paid losses must be translated to a percent of premium, giving consideration to the expense provision in the rates. For the Voluntary Market and the Assigned Risk Market, the assessment rate converted to a percentage of premium is 1.7% of standard premium.

Based on the foregoing, it is recommended that 1.7% be approved as the assessment fund rate effective January 1, 2005 for voluntary and assigned risk market insurers, for policies effective on or after January 1, 2005.

E. United States Longshore and Harbor Workers' Coverage Percentage

NCCI is proposing a factor of 26%. The United States Longshore and Harbor Workers' Compensation Act percentage allows a carrier to charge a higher premium for the portion of payroll subject to the higher exposure under the federal act.

It is recommended that a factor of 26% be approved as the United States Longshore and Harbor Workers' Coverage Percentage applicable only in connection with Basic Manual Rule 3-A-4.

IV. CONCLUSION

On the basis of the foregoing Facts, Discussion and Recommendations, it is recommended that the following orders be entered, to wit:

A. The overall cost level changes for advisory loss costs filed by the National Council on Compensation Insurance ("NCCI") are approved as filed.
B. Approve the assigned risk rates with the exception of the 2.5% contingencies provision.
C. Approve the United States Harbor Workers' Coverage Percentage of 26% applicable only in connection with Basic Manual Rule 3-A-4 .
D. The proposed removal of the premium discount for employers in the assigned risk plan be denied.
E. The proposed Workers Compensation Commission industrial classification assessment fund rate of 1.7% and "F" industrial classification assessment fund rate of 7.0% for voluntary market and assigned risk market insurers, for policies effective on or after January 1, 2005, are approved.
F. For filings received prior to January 1, 2005, the thirty (30) day advance filing set forth in Conn. Gen. Stat. §38a-676(b) is waived pursuant to that section to allow for the adoption of the advisory pure premium change effective January 1, 2005.

Dated at Hartford, Connecticut, the 5th of November, 2004.

Thomas J. Taggart
Thomas J. Taggart
Hearing Officer

On November 10, 2004 the National Council on Compensation Insurance (NCCI) provided the impact of the Connecticut rate order on the assigned risk market. Per the NCCI the impact of using a 0% underwriting contingency factor instead of 2.5% and maintaining the assigned risk premium discount results in the following assigned risk market change:

Component	**Assigned Risk Premium Level Change**
Experience, Trend and Benefit	-0.1% (no change)
Assigned Risk Expenses	-6.3% (from –2.5%)
Overall Change	-6.4% (from +4.2%)